SUBSTANTIVE ERRATA FOR THE DRAFT FINAL COMMISSION INTEGRATED ENERGY POLICY REPORT

November 12, 2003

1. Page v, 1st sentence of the 4th paragraph is amended to read,

The Energy Commission believes that state energy policies should capture the best features of both prudent and effective regulation and vigorous, open, competitive transparent procurement processes and energy markets that provide adequate investment opportunities.

2. Page v, 6th paragraph is amended to read,

The following energy policy recommendations, highlighted from the body of this report, reflect these principles. Please note that there are numerous actions that various state government entities are currently undertaking or plan to conduct that do not appear below as policy recommendations. However, they are critical to the formation state energy policy and are discussed throughout this report.

3. Pages v-vi, the first two bullets under ***Electricity*** are amended to read,

- "Ramp up public funding for cost-effective energy efficiency programs above current levels to achieve at least an additional 1,700 megawatts of peak electricity demand reduction and 6,000 gigawatt-hours of electricity savings by 2008.

- ~~Deploy~~ Rapidly deploy advanced metering systems if analyses show the results are favorable to the customer and will effectively decrease peak electricity use~~advanced metering systems and rate structures to help link retail prices with wholesale costs~~.

4. Page vi, the 1st and 4th bullets under ***Natural Gas*** are amended to read,

- "Increase funding for natural gas efficiency programs ~~that could~~to achieve an additional 100 million therms of reduction in natural gas demand by 2013.

- Initiate legislative hearings that will: 1) examine the issue of gas quality and gas gathering as it relates to California gas production, and 2) determine whether additional legislative action is warranted to resolve the issues."

5. Page 1, a new 3rd paragraph is added to read,

"During the Spring of 2003, California's three principal energy agencies created ~~an~~ a common vision to direct the future efforts at the CPUC, the CPA, and the Energy Commission. As envisioned in the plan, the Energy Report process represents "a critical step in identifying future statewide energy needs."

6. Page 6, the section under ***Electricity Outlook*** is amended to read,

"Population and economic activity drive electricity consumption growth. Maintaining adequate supply reserves will be critical for meeting future electricity needs.

Under average weather conditions, the Energy Commission believes that California should have adequate supplies of electricity through 2009. However, ~~since~~ because unusually hot weather conditions can significantly drive peak electricity demand, the Energy Commission is concerned about adequate supplies of electricity beginning in 2006. Under adverse weather conditions, planning reserve margins could fall below seven percent in 2006 and even lower thereafter. The California Independent System Operator (CA ISO) believes that reserve shortages could return as early as the summer of 2004 under "adverse conditions."

~~Notwithstanding these concerns, the Energy Commission believes planning reserves can improve through 2010 if price-responsive demand programs, peak reduction program goals, and accelerated RPS goals are met.~~

~~Concerns about low~~R ~~r~~eserve margins ~~also are~~can be affected by the retirement of older generating units. The CA ISO projects that ~~being raised by the California Independent System Operator (CA ISO). The CA ISO believes that reserve shortages could return as early as summer 2004 under certain "adverse" conditions. These conditions include low levels of hydroelectric power from the Pacific Northwest, higher than anticipated levels of generation outages inside the state, and the forced or "economic" retirement of more than 1,000 megawatts stemming from increasingly restrictive air quality standards. The CA ISO also expects that an additional 43~~,870 megawatts of generation capacity in California could be retired d~~are potentially at risk of retiring d~~uring the next several years~~.~~, while Dynergy, a merchant generator, has suggested that more than 10,000 MW may be retired as early as 2005 because of ~~Even under average weather conditions, the CA ISO is concerned about resource adequacy and urges the addition of generation and transmission infrastructure.~~

~~Dynegy~~~~One merchant generator has suggested that~~identified ~~more than 10,000 megawatts of merchant generation that may be at risk of economic retirement as early as 2005 after their due to~~ a lack of Reliability-Must-Run (RMR) contracts~~ expire next year~~, contracts with the Department of Water Resources, or other power contracts. In contrast, t~~T~~he Energy Commission has projected that 4,630 MW of existing capacity will retire through 2006..~~Resource adequacy concerns would be heightened if these plants were retired for economic reasons.~~

Notwithstanding all of these projections, the Energy Commission believes that planning reserve can improve through 2010, if California meets the goals in demand responsive programs, peak reduction programs, and the accelerated RPS."

7. Page 8, the bullet under ***Recommendation for Resource Planning*** is amended to read,

- "Incorporate the ~~resource plan determined by the Energy Commission and create~~~~the~~ forecasts, resource assessments and policy preferences of the *Energy Report* into an explicit resource adequacy requirement for all retail electricity suppliers to guide resource procurement."

8. Page 8, last paragraph is amended to read,

The Energy Commission and the CPUC are collaborating on a plan to improve the operation of energy efficiency programs, carefully ~~increasing~~ramping up program funding for electricity efficiency from the current level of $2~~85~~30 million to ~~$572 million per year~~double this amount by 2008 and triple this amount by 2013. Over the next two years, the CPUC will oversee the expenditure of $512 million in public funding. They will re-assess program administration and incorporate efficiency into their procurement process. By spending about $5 billion over 10 years, the state would save consumers over $15 billion.

9. Page 9, last sentence of the 3rd paragraph is amended to read,

"Staff analysis suggests that ~~an additional 1,700 MW could be reduced from~~ peak demand statewide could be reduced an additional 1,700 MW and that consumption could be reduced 6,000 gigawatt-hours by 2008~~13~~ by doubling current energy efficiency funding levels."

10. Page 10, 1st and 4th bullets under ***Recommendations to Improve Electricity Efficiency*** are amende3d to read,

- "~~Ramp up public funding of energy efficiency activities starting now to harvest statewide electricity savings of at least 1,700 MW more than expected from current programs by 2013.~~Ramp up public funding for cost-effective energy efficiency programs above current levels to achieve at least an additional 1,700 megawatts of ~~reduced~~ peak electricity demand reduction and 6,000 gigawatt-hours of electricity savings by 2008."

- "Rapidly ~~D~~deploy advanced metering systems if analyses show the results are favorable to the customer and will effectively decrease peak electricity use~~and rate structures to help link retail prices with wholesale costs~~."

11. Page 11, 3rd paragraph is amended to read,

"In light of the progress already being achieved under the RPS program, the Energy Commission believes the RPS should extend to load-serving entities. The Energy Commission also believes that development of more ambitious longer-term RPS goals for the post-2010 period ~~are~~is warranted."

12. Page 12, a new 4th paragraph is added to read,

"Legislation enacted in early 2001 authorized the state, through the Department of Water Resources (DWR), to procure electricity on behalf of the IOUs and issue bonds to cover the costs of purchasing the power. It also directed the CPUC to suspend direct access. In its subsequent decision, the CPUC stated that "Suspending the right to acquire direct access service will assist in issuing these bonds at investment grade, by providing DWR with a stable customer base from which to recover its costs."

13. Page 15, last sentence of the page is amended to read,

"The existence of such a market may also encourage generators to take merchant risk ~~with less than 100 percent of output under contract~~."

14. Page 13, 1st paragraph is amended to read,

"System reliability is important. Noncore customers and businesses must meet specific reserve requirements without burdening other customers, either by cogenerating/self-generating or by buying electricity through another energy provider. All customers would be equally responsible for securing electricity supplies to maintain the system's reliability."

15. Page 14, 1st full paragraph is amended to read,

"A new collaboration between the Energy Commission and CPUC will begin shortly to address outstanding issues in establishing a~~n~~ transparent electricity distribution system planning process. Utilities are currently required to consider distributed generation as part of its ~~do~~ distribution system planning process. ~~;~~ ~~h~~However, it is not clear how this process is actually implemented, and in particular whether ~~this does not~~ it adequately addresses the benefits and costs of distributed generation. The collaboration will be part of a ~~is~~ new CPUC rulemaking, ~~will be~~ a follow-up to the CPUC's ~~a~~ February 2003 policy decision ~~adopted by the CPUC~~. The agencies ~~also~~ are also committed to working together to target research to identify cumulative system impacts and examine issues associated with new technologies and their use."

16. Page 14, last bullet under ***Recommendations to Leverage Customer Choice*** is deleted.

17. Page 17, 1st sentence of the 1st paragraph is amended to read,

"To achieve the policy goals for electricity outlined in the Energy Report, the CPUC's procurement process must be open, competitive and transparent, and incorporate the results of ~~our~~the Energy Commission's resource planning, forecasts and assessments."

18. Page 17, 1st sentence of the 1st full paragraph is amended to read,

"To assure that California meets this goal, t~~T~~he Energy Commission ~~recommends that~~is implementing a fully collaborative transmission planning process including ~~between the Energy Commission,~~the ~~the~~ CA ISO, CPUC, and ~~the~~ utilities. ~~be implemented to address California's critical transmission infrastructure needs.~~"

19. Page 21, 6th paragraph is amended to read,

"Before California can retire or replace ~~its old, less efficient natural gas-fired~~existing power plants, it must examine the contractual arrangements that dictate their use. Many have RMR contracts with the CA ISO or long-term DWR contracts ~~with California's Department of Water Resources~~. To replace the aging power plants now used for reliability purposes, their cleaner, more efficient upgrades or replacements must receive similar financial incentives that recognize their benefits to local reliability and California's overall grid system. This issue will be further addressed as part of the 2004 Energy Report update proceeding."

20. Page 22, the bullet under ***Recommendation for Natural Gas Efficiency*** is amended to read,

- ”Increase funding for natural gas efficiency programs ~~that could~~to achieve an additional 100 million therms of reduction in natural gas demand by 2013.”

21. Pages 22-23, 1st paragraph under ***Reducing Natural Gas Dependence*** is amended to read,

“With demand for natural gas increasing to meet the needs of a growing electricity generation market, concerns have emerged among state policy makers about California’s increasing dependence on natural gas. These concerns have become even more pronounced with increased price volatility. The risks associated with long-run increases in the price of natural gas and supply shortfalls can be mitigated by reducing demand for natural gas for power generation. Effective implementation of the RPS and expanded energy efficiency programs are~~, as described earlier in this report, is~~ the critical element of reducing the state’s dependence on natural gas.”

22. Page 25, new 2nd and 3rd paragraphs are added to read,

“While collaboration has been an effective tool to address many of the barriers affecting California gas production, the Energy Commission recognizes two specific areas where legislative input may be needed for resolution. For more than a year, the Natural Gas Working Group has unsuccessfully attempted to broker a solution between California producers looking to serve the compressed natural gas vehicle market and SoCalGas who imposes strict gas-quality requirements on these customers. For more than a decade, producers in Northern California have not been able to reach a solution which would allow effective producer access to PG&E’s gas gathering system, despite the issuance of two key CPUC decisions outlining such a solution.

The Energy Commission recommends that the appropriate legislative committees initiate hearings to explore these two issues in greater detail and determine whether additional legislative action will be required to resolve the issue. The Energy Commission stands ready to assist if this approach is utilized.”

23. Page 26, the 3rd bullet under ***Recommendations for Improving Natural Gas Infrastructure*** is deleted and replaced with the following,

- “Initiate legislative hearings that will: 1) examine the issue of gas quality and gas gathering as it relates to California gas production, and 2) determine whether additional legislative action is warranted to resolve the issues.”

24. Page 27, 1st paragraph under ***Recent Trends in Meeting California's Transportation Energy Needs*** is amended to read,

"In just the past 20 years, the demand for gasoline and diesel has ~~jumped~~increased 53 percent. Californians consume nearly 4~~8~~9.5 million gallons of ~~petroleum fuels~~gasoline and diesel each day, accounting for almost half of all the fossil fuel energy consumed in the state each year."

25. Page 31, 2nd paragraph under ***Diversify Transportation Fuels*** is amended to read,

"Through the efforts of the Energy Commission, Air Resources Board, local air districts, federal government, transit agencies, utilities, and other public and private entities, California is home to a growing number of alternative-fuel vehicles. More than ~~2~~60,000 cars, transit buses and trucks currently operate on natural gas and LPG, along with the nearly 13,000 electric vehicles. California also has in excess of 800~~over 40~~ natural gas and LPG fueling stations and is host to the California Fuel Cell Partnership."